



Acklands

Annual Report 1986

Corporate Profile

Acklands was founded in Winnipeg in 1889. While the roots of Acklands are in Western Canada, we now operate distribution centres and company-owned branches from Vancouver Island to the Province of Quebec.

In order to ensure efficient delivery of replacement automotive parts and industrial supplies to our customers, we use 18 regional warehouses and 243 branches. We have an extensive number of clients comprised of independent wholesale automotive jobbers, auto parts retailers, industrial end-users, governments at all levels and government agencies.

Acklands also has developed a number of specialized Divisions for the sale of fasteners, paint and body shop supplies, hand and power tools, consumer level products, machine tools and welding supplies. The Western Automotive Rebuilders engine rebuilding facility is located in Saskatoon along with other installations for the rebuilding of clutches, water pumps and brakes.

The Bumper To Bumper program is a combined wholesale and retail concept supporting 205 stores, of which 48 are Acklands owned.

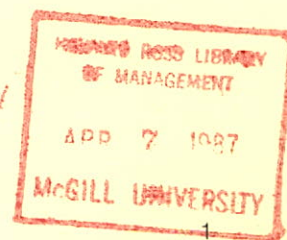
Contents	Corporate Profile	IFC	Consolidated Statement of	
	Financial Highlights	1	Changes in Financial Position	9
	President's Report	3	Notes to Consolidated	
	Business Review	5	Financial Statements	10
	Consolidated Balance Sheet	7	Five Year Financial Summary	13
	Consolidated Statement of Income	8	Selected Ratios	14
	Consolidated Statement of		Board of Directors, Directory	16
	Retained Earnings	9		

Annual Meeting The Annual Meeting of Acklands Limited will be held on Tuesday, May 5, 1987 at 2:00 p.m. in the Grenadier Room of L'Hotel, 225 Front Street West, Toronto, Ontario.

Rapport Annuel Si vous désirez recevoir un exemplaire en français de ce rapport, veuillez vous adresser au Secrétaire, Acklands Limitée.

Financial Highlights

	1986	1985
Sales	\$384,869,000	\$377,086,000
Income before extraordinary item	2,573,000	5,809,000
Extraordinary item	645,000	2,578,000
Net Income	3,218,000	8,387,000
Earnings per common share		
Income before extraordinary item	0.59	1.50
Extraordinary item	0.15	0.67
Net Income	0.74	2.17
Dividends paid – common shareholders	2,612,000	2,322,000
Dividends paid per common share	0.60	0.60
Shareholders' equity	97,651,000	78,456,000
Equity per common share	20.19	20.27
Total Assets	\$218,549,000	\$210,350,000



Executive Office
Downsview, Ontario



- ▲ Distribution Centres
- Acklands Branches

President's Report

Our core businesses of merchandising automotive replacement parts and industrial products were buffeted last year by regional economic and operational forces that aggravated our ability to achieve the steady and reliable growth anticipated in our new corporate plan.

Markets and sales were relatively buoyant in the first half. There was a distinct softening, however, in the second six months of the year.

While our overall results were disappointing, remedial actions arrested further deterioration in performance and will return us to a growth mode in 1987.

We continued the strategic thrusts developed in 1985 to surmount many operational difficulties experienced in the past. Three elements of this strategy were:

- Further consolidation of "key decision-making" resources at our executive head office.

These resources, which are national in scope, include marketing, planning, advertising and promotional services. Last year, legal and financial services were also transferred to our corporate office.

- Further consolidation and rationalization of our warehouse distribution facilities.

In 1986, three outlets in Thunder Bay, Ontario were merged in a new building, and two facilities in Quebec City were combined in a new warehouse. Our major consolidation of facilities is now complete.

- The modernization of our national branch network.

Last year, 15 more branches were refurbished, principally in Manitoba. We opened 6 new branches and closed 4 as market conditions changed.

1986 Financial Results

Sales from operations totalled \$384.9 million in 1986, a moderate 2% increase over 1985.

Income before income taxes of \$4,797,000 compared with \$8,670,000 in 1985. The income tax rate in 1986 of 46.4% was materially higher than the previous year's 33.0% primarily due to the removal of the 3% inventory allowance in computing taxable income. Accordingly, income

after income taxes, before extraordinary item, was \$2,573,000 (\$0.59 per share) compared with \$5,809,000 (\$1.50 per share) in 1985. Net income after extraordinary item was \$3,218,000 (\$0.74 per share).

Gain on sale of fixed assets was about \$1 million less in 1986 than last year.

Our capital expenditure program included extensive purchases of computer equipment. However, this type of investment will decline significantly in 1987 in line with lower product prices in the computer industry.

The Industrial Products Market

Acklands warehouses and distributes more than 85,000 individual products that are essential to industrial and consumer users – paints, solvents, hand and power tools, abrasives, paper products, ladders, shovels, welding equipment, fasteners and other supplies.

Our marketing exposure is broad and includes the agriculture, mining and extractive, forest products, energy, construction and primary and secondary manufacturing industries.

As noted, the Alberta recession curtailed industrial supply sales in that province. In British Columbia, however, a strong increase was achieved through an aggressive marketing effort, despite prolonged labor difficulties in the forestry industry.

As part of our segmented marketing approach, we targeted the agricultural community in Saskatchewan with new farm-related products. The related sales success of this advertising and promotion campaign has encouraged us to expand the agricultural products program to Alberta and Manitoba in 1987.

This year, we expect our industrial product sales to improve in step with Canada's industrial performance. Early in 1987, we installed a sales outlet at the Dome Stadium project in Toronto and this contract will provide extra sales impetus over the next three years.

Automotive Aftermarket

The market for replacement automotive parts and related accessories remained highly competitive as traditional channels of distribution came under siege. Direct sales by manufacturers to the auto specialist are increasing and we are taking appropriate steps to adjust to this change in the marketplace.

However, the market share of jobbers has remained relatively stable, while that of the mass merchants continues to shrink. It is essential that independent jobbers modernize their stores, adopt contemporary marketing techniques, remerchandise their displays, and implement price-sensitive customer promotions.

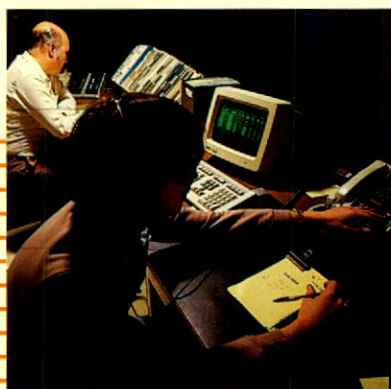
In recent years, we have renovated and remerchandised approximately 80% of our branch outlets, and implemented national and local marketing and advertising campaigns to protect and enlarge our share of the aftermarket.

Recently, we completed extensive market studies in all provinces to assist us in identifying and understanding consumer trends so that we can position Acklands as a leader in response to future market realities. A similar internal study was also made by independent consultants to identify ways in which we can improve our operations, marketing and sales practices.

Future Directions

One of our on-going priorities is to further define and refine our corporate structure so that we can respond more effectively to market opportunities.

- We have strengthened our resources in planning, marketing, sales, advertising and promotion, with the intention of initiating a higher percentage of national campaigns without disturbing local and regional sales activities.
- We are emphasizing central controls and economies for such functions as computer usage, credit control and finance.
- We are seeking an appropriate balance between a greater centralization of corporate management and the retention of independent entrepreneurial management in our operating divisions.



A major thrust this year will be the finalization of a long-term strategic document that sets out Acklands corporate mission, goals and philosophy, our priorities in marketing and computerization, and our expectations of all employees in dealing with customers.

Each chapter of this document will be an important thrust in its own right. For example, we are committed to the total computerization of all business functions and communications so that Acklands has a sound technological base for productivity and profitability gains. Similarly, performance standards will be established for our staff in the area of sales, operations and customer relations.

We also anticipate further rationalization of product lines, which will necessitate the elimination of unprofitable or slow moving products without impairing the breadth of our inventory.

Corporate Developments

In July, we issued 965,000 Treasury shares to improve the Company's equity position. These common shares were privately placed with institutional investors. The result is a \$19 million improvement in shareholders' equity.

Our equity base has expanded further in 1987 with the issue of 113,220 common shares as part of the acquisition price of an auto parts distribution company.

Acquisition

In December, 1986 – the first month of our 1987 fiscal year – we acquired Canadian Performance Distributors, a Burlington, Ontario company that distributes performance-oriented parts and dress-up accessories at the

wholesale level throughout Canada. This was our first major acquisition in several years and involved the payment of cash and the issue of common shares.

Canadian Performance Distributors, with a 70,000 square-foot warehouse and a staff of 66, is a well-managed and profitable enterprise. It will continue to operate under its own name and its existing management as a division of Acklands. The firm's business is a natural extension of our traditional automotive aftermarket activities, provides us with access to an expanded customer base, and enables us to offer our existing customers a wider choice of products.

Outlook

Canada should achieve reasonable economic growth in 1987, although the benefits will not be equitably distributed on a regional basis. Central Canada should perform well, and there are encouraging recovery signs in western Canada with oil prices rising toward more acceptable levels. The primary need in Alberta is stable energy prices, which would benefit Canada as a whole. The British Columbia economy should also improve with the recent settlement of labor difficulties. Inflation appears to be under control and the long-term expectation is lower interest rates.

The strengthened yen, and thus relatively weak Canadian dollar, has caused us to move the sourcing of some offshore products to Pacific Rim countries other than Japan. This was a difficult decision for us as we value long-term supplier relations, but competitive pressures in Canada forced us to respond to cost realities.

As no major economic disruptions are anticipated, we are confident of attaining improved results for our shareholders in 1987.

Acknowledgements

We would like to thank our employees, suppliers, customers and shareholders for their support and loyalty during the year. They are, in different ways, vital participants in Acklands and its future. We hope they will share their enthusiasm and dedication with us during the years to come as our efforts achieve more rewarding and mutually beneficial levels of performance.

Donald J. Dawson
President



Business Review

The schematic map on pages 2 and 3 of this Annual Report illustrates the geographic scope of our distribution activities, and the strategic relationship between our regional distribution centres and branch network. In servicing the regional market and local branches, individual distribution centres vary in size from as few as 40,000 to as many as 85,000 specific parts and products, with inventory values ranging from \$3 million to \$8.5 million. In turn, individual branches have as few as two and as many as 30 employees.

Essentially, we are a merchandising organization with expertise in selling to two large market sectors. In the automotive sector, we sell products that eventually wear out and must be replaced – brakes, shocks, pumps, spark plugs, ignition systems and so forth. In the industrial sector, we sell a wide variety of products and tools that are used to build, manufacture and produce other products and facilities.

As a merchandising intermediary – linking original equipment manufacturers with a national profusion of wholesalers and retailers – we carry the product lines of 400 major suppliers. We stock an extensive range of parts and products because our commitment is to being a full-line warehouse distributor offering customers "a one stop shop" under the Acklands name. Consistent with good marketing and proper inventory control, however, our policy is to warehouse only those parts and products that are in demand by customers and result in sales.

Our merchandising and distribution system provides a cost-efficient integration of automotive and industrial supplies in most of our facilities, rather than treating each sector separately. This dual approach maximizes market penetration and customer convenience.

1986 in Retrospect

Nationally, our total sales rose by 2% last year, although the performance was by no means even on a regional basis.

Because of our efforts in broadening the customer base, our Alberta

organization had only a small sales decrease. In British Columbia, notwithstanding a prolonged labor strike, sales rose by 7.4% due to a strong marketing effort and some spillover from Expo '86. In Saskatchewan, our concerted campaign to penetrate the agricultural products market offset a somewhat weak provincial economy, producing an acceptable sales increase. In Manitoba, our performance was affected by a major restructuring of our operations and staffing, although sales were steady. We expect a marked improvement in Manitoba this year.

In spite of a strong surge in the Ontario economy, our sales performance was unacceptable. We are not satisfied with a number of factors and have taken corrective action.

In Quebec, sales rose well, partly due to the opening of a small warehouse in Montreal and the addition of four branches. Bottom line results, however, were disappointing and we are proceeding with remedial measures. Late in the year, a new warehouse opened in Quebec City, replacing two older and less efficient facilities, and should improve customer service.

Management Information Systems

The enhanced use of computer technology is one of the important cornerstones of our future. We have followed an orderly and aggressive program of bringing our distribution network and management systems into the information technology era.

- In 1985, the last of our distribution centres was converted to a state-of-the-art on-line system.
- In 1986, we began to install prototype systems in our branch network to provide an integrated linkage with our warehouse systems. By year-end, 18 urban branches were on-line.
- By the end of 1987, we expect to have more than 100 Acklands branches computerized.
- By the end of 1988, the entire branch network should be fully computerized.

We have also begun to upgrade our technological capabilities. By mid-1987, all warehouses will be electronically linked on leased lines, enabling them to transmit data efficiently and share electronic messaging. Electronic links are also being established with major suppliers and customers. Several customers already have computer terminals compatible with our technology.

Consequently, before the end of the 1980s, all Acklands locations will be computer linked via leased lines or on a dial-up basis, fulfilling our vision of greatly improved inventory management, operational efficiency, and customer service through advanced technology.

The benefits of computerization are already evident. For example, within a few months of being brought on-line, our branches report a 90% reduction in rush orders to our regional distribution centres. This reduced warehouse costs, improved customer response time and gross margins.

While local installation and operating resources are under the control of the regional divisions, we are also developing a strong core of computer expertise at the corporate level. Computerization is enabling management to use focussed financial and operating data to spot problems



immediately and provide better operational leadership.

The two major reasons for computer usage – better customer service and reduced costs – are both being realized as installations mature.

Asset Management

We have two major components in our asset management portfolio – accounts receivable and inventory.

Our accounts receivable performance is well within industry standards in terms of aging, collections and bad debt write-off. Bad debts, for instance, were .24% of sales.

The inventory component of our asset management caused some concern in 1986. The turnover ratio was about the same as the previous year. In addition to improved technical inventory management techniques, we have adopted tough new management policies in our branch network.

Capital Expenditures

Capital expenditures have been at historically high levels in recent years as a result of renovations and

upgrades at distribution outlets and the acquisition of computer hardware through capital leases.

Our renovation program is complete, and only minor improvements and repairs are expected over the next few years. Our intention is to minimize any facility restructuring for at least two years.

Computer equipment purchases will, however, continue for another two years, although expenditures will be less than in the past due to reduced hardware costs. These per unit costs are at about one-quarter the level of four years ago.

Overall, capital expenditures will be substantially lower for the next few years, excluding the acquisition of new business assets.

Human Resources

Early in 1987, the Board of Directors approved substantial enhancements in pension amounts for employees retired in the years 1980 and prior. This was accommodated by existing pension funds and will mitigate, to some extent, the effects of high inflation years on our valued former associates.

During 1986, a newly revised personnel policy manual was dissemi-

nated and this should assist in enhanced effectiveness in the management of our human resources, with due regard to consistency from coast to coast. Various safety programs in our large facilities were undertaken with a view to reducing accidents and controlling associated costs.

Summary

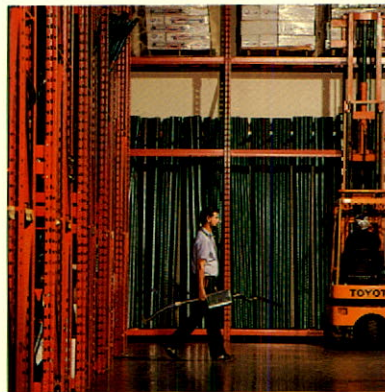
Acklands has adopted a five-part program to propel it to successful levels of performance in the years ahead:

- Strong and deep planning and strategic programming for all business functions;
- An intensified level of market planning and analysis;
- Industry leadership in the use of computer technology;
- Enhanced management disciplines;
- Reorganization of our sales programs, targetting our sales efforts precisely at researched market conditions.

These programs are well underway and we anticipate steady gains in our financial results in 1987 and subsequent years.

P. Burns

Paul Burns
Executive Vice-President

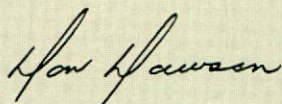


Consolidated Balance Sheet

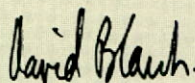
As at November 30, 1986

Assets		1986	1985
Current Assets	Cash	\$ 3,765,000	\$ 3,027,000
	Accounts receivable	58,228,000	56,585,000
	Inventories	109,668,000	107,190,000
	Prepaid expenses	1,414,000	1,092,000
		173,075,000	167,894,000
Other Assets	Mortgages and lien notes receivable and other assets	6,433,000	5,066,000
Fixed Assets (note 3)	Land, buildings and equipment	66,361,000	62,851,000
	Accumulated depreciation	27,320,000	25,461,000
		39,041,000	37,390,000
		\$ 218,549,000	\$ 210,350,000
Liabilities			
Current Liabilities	Bank advances (note 4)	\$ 43,411,000	\$ 48,827,000
	Accounts payable and accrued liabilities	44,278,000	47,601,000
	Income and other taxes payable	345,000	1,012,000
	Principal due within one year on long-term debt	2,347,000	2,691,000
		90,381,000	100,131,000
Long-Term Debt (note 5)		25,902,000	28,014,000
Deferred Real Estate Income		3,183,000	3,416,000
Deferred Income Taxes		1,432,000	333,000
Shareholders' Equity			
Capital Stock (note 6)	4,835,511 Common shares (3,870,511 in 1985)	51,774,000	32,956,000
Retained Earnings		45,877,000	45,500,000
		97,651,000	78,456,000
		\$ 218,549,000	\$ 210,350,000
Contingent Liabilities and Commitments (note 7)			
Obligations Under Leases (note 8)			

Approved by the Board



D.J. Dawson, Director



D. Blank, Director

Consolidated Statement of Income

Year ended November 30, 1986

		1986	1985
Sales		\$ 384,869,000	\$ 377,086,000
	Cost of sales, selling and administrative expenses	367,290,000	357,352,000
		17,579,000	19,734,000
Other Expenses	Depreciation	3,964,000	3,480,000
	Interest on long-term debt	3,297,000	3,446,000
	Other interest	6,388,000	6,012,000
		13,649,000	12,938,000
		3,930,000	6,796,000
	Gain on sale of fixed assets	867,000	1,874,000
	Income before income taxes and extraordinary item	4,797,000	8,670,000
	Income taxes (note 9)	2,224,000	2,861,000
	Income before extraordinary item	2,573,000	5,809,000
	Extraordinary item		
	Income tax reduction on application of unrecognized tax benefits of prior years	645,000	2,578,000
Net Income		\$ 3,218,000	\$ 8,387,000
Earnings Per Share	Income before extraordinary item	\$ 0.59	\$ 1.50
(note 11)	Net Income	0.74	2.17

Auditors' Report

To the Shareholders of
Acklands Limited

We have examined the consolidated balance sheet of Acklands Limited as at November 30, 1986 and the consolidated statements of income, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at November 30, 1986

and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Winnipeg, Canada
January 23, 1987

Thorne Ernst & Whinney
Chartered Accountants

Consolidated Statement of Retained Earnings

Year ended November 30, 1986

		1986	1985
	Balance at beginning of year	\$ 45,500,000	\$ 39,435,000
	Net income	3,218,000	8,387,000
		48,718,000	47,822,000
Deduct	Dividends declared on common shares	2,612,000	2,322,000
	Share issue costs, net of income taxes	229,000	—
		2,841,000	2,322,000
Balance at End of Year		\$ 45,877,000	\$ 45,500,000

Consolidated Statement of Changes in Financial Position

Year ended November 30, 1986

		1986	1985
Cash provided by (used for)			
Operations	Income before extraordinary item	\$ 2,573,000	\$ 5,809,000
	Items not involving cash		
	Depreciation	3,964,000	3,480,000
	Income taxes	2,224,000	2,911,000
	Gain on sale of fixed assets	(867,000)	(1,874,000)
	Other items	(558,000)	994,000
	Change in non-cash working capital	(8,445,000)	(13,324,000)
		(1,109,000)	(2,004,000)
Financing	Proceeds from issue of long-term debt	2,218,000	22,984,000
	Reduction of long-term debt	(4,330,000)	(21,757,000)
	Dividends	(2,612,000)	(2,322,000)
	Issue of common shares	18,818,000	—
	Share issue costs	(467,000)	—
		13,627,000	(1,095,000)
Investments	Additions to fixed assets	(6,693,000)	(11,289,000)
	Proceeds from sale of fixed assets	1,712,000	5,024,000
	Decrease in investment in 50% owned company	—	50,000
	Increase in mortgages and lien notes receivable and other assets	(1,383,000)	(526,000)
		(6,364,000)	(6,741,000)
Increase (Decrease) in Cash Position		6,154,000	(9,840,000)
Cash Position at Beginning of Year		(45,800,000)	(35,960,000)
Cash Position at End of Year		\$ (39,646,000)	\$ (45,800,000)

Note: Cash position is represented by bank advances net of cash.

Notes to Consolidated Financial Statements

Year ended November 30, 1986

1. General

The company is incorporated under the laws of Manitoba and is engaged in the integrated

distribution of automotive and industrial products in Canada.

2. Summary of Significant Accounting Policies

(a) Principles of consolidation
These consolidated financial statements include the accounts of all subsidiary companies. The operating results of all subsidiaries are included in the consolidated financial statements from the dates of acquisition and the acquisitions are accounted for as purchases.

(b) Inventories
Inventories are valued at the lower of cost and net realizable value.

(c) Fixed assets
Fixed assets are stated at cost. Depreciation is recorded on a basis to amortize the cost of fixed assets over their estimated useful lives and the rates applied are substantially as follows:
Buildings
2% Straight-line
Equipment, other than automotive
10% Straight-line
Equipment, automotive
30% Diminishing balance
Leasehold improvements
Over the unexpired terms of the lease

(d) Deferred real estate income
The profits realized on the sale and lease back of property have been deferred and are

being amortized over various periods according to the terms of the related leases.

(e) Leases
Leases are classified as either capital or operating leases. Leases that substantially transfer all of the benefits and risks of ownership of property to the company are accounted for as capital leases. At the time a capital lease is entered into, an asset is recorded together with its related long-term obligation to reflect the acquisition and financing. Equipment recorded under capital leases is being depreciated on the same basis as described in note (c) above. Rental payments under operating leases are expensed as incurred.

(f) Pension plan
The company's method of accounting for pension costs and obligations is in accordance with the 1986 recommendations of The Canadian Institute of Chartered Accountants.

The net pension amount reflected in income includes the amortization of the difference between plan assets and benefit obligations calculated on a straight-line basis over the estimated average service life of the employee group. The plan assets are valued on a moving average basis related to market.

3. Fixed Assets

	1986		1985	
	Cost	Accumulated depreciation	Net	Net
Land	\$ 3,100,000	—	\$ 3,100,000	\$ 3,061,000
Buildings	20,001,000	\$ 4,614,000	15,387,000	15,303,000
Equipment	23,846,000	15,698,000	8,148,000	8,124,000
Equipment under capital leases	11,710,000	4,133,000	7,577,000	6,520,000
Leasehold improvements	7,704,000	2,875,000	4,829,000	4,382,000
	\$ 66,361,000	\$ 27,320,000	\$ 39,041,000	\$ 37,390,000

4. Bank Advances

Bank advances are secured by the assignment of receivables, a first floating charge on inventories and a first floating charge, apart from obligations on specific mortgages and obligations under capital leases, on all other assets.
The company's banking facility has specified repayment terms. Total bank debt of

\$62,016,000 has been segregated between current and long-term liabilities, with \$18,605,000 classified as long-term debt. Long-term bank debt will be adjusted to 30% of total bank debt, ultimately being fixed on May 1, 1988 or such later date as may be agreed between the company and its bankers.

5. Long-Term Debt

	1986	1985
Term Bank Loans, payable in three equal annual instalments, commencing May 1, 1990 (note 4)	\$ 18,605,000	\$ 20,926,000
Obligations under capital leases with maturities to 1996 (note 8)	7,370,000	6,580,000
9¾% to 13% Mortgages, agreements and notes, payable in monthly or quarterly instalments	2,274,000	3,199,000
	28,249,000	30,705,000
Principal included in current liabilities	2,347,000	2,691,000
	\$ 25,902,000	\$ 28,014,000
Interest on the Term Bank Loans is at prime commercial lending rates plus ¼ of 1% until May 1, 1991 and ½ of 1% thereafter.	Principal due within each of the next five years is as follows:	
	1987	\$ 2,347,000
	1988	1,997,000
	1989	2,030,000
	1990	7,278,000
	1991	6,694,000

6. Capital Stock

Authorized share capital of the company is as follows:

(a) 623,116 preference shares issuable in series without maximum individual or aggregate consideration.

(b) an unlimited number of common shares without maximum individual or aggregate consideration.

7. Contingent Liabilities and Commitments

(a) Employees' and officers' bank loans of \$4,917,000 have been guaranteed by the company to accommodate their purchase of company shares.

were outstanding at November 30, 1986 and provided mortgages on real property as collateral security for such indemnity.

(b) On sale of a subsidiary in 1983, the buyer agreed to indemnify the company with respect to its continuing guarantee of certain obligations of which \$2,054,000 (U.S. \$1,485,000)

(c) Subsequent to November 30, 1986 the company acquired the net assets of a business, the purchase price for which was settled by the issuance of 113,220 common shares and cash of approximately \$2,000,000.

8. Obligations Under Leases

(a) Capital leases

The following is a schedule by year of future minimum lease payments together with the

balance of the obligations under capital leases.

	1986	1985
1986	\$ —	\$ 2,132,000
1987	2,615,000	2,133,000
1988	2,407,000	1,924,000
1989	1,856,000	1,374,000
1990	1,144,000	641,000
1991	476,000	346,000
1992 to 1996	1,058,000	—
	9,556,000	8,550,000
Amount representing interest	2,186,000	1,970,000
Balance of obligations included in long-term debt	\$ 7,370,000	\$ 6,580,000

(b) Operating leases

The company has operating leases which, after recoveries from subtenants totalling \$4,142,000, call for future net rentals of \$59,563,000. Net rentals are as follows:

1987	\$6,619,000
1988	6,378,000
1989	5,542,000
1990	3,968,000
1991	3,352,000
1992 to 2006	33,704,000

9. Income Taxes

(a) Provision for income taxes
The company's provision for income taxes is accounted for as follows:

	1986	1985
Income taxes based on Canadian statutory income tax rates applied to income before income taxes and extraordinary item	\$ 2,446,000	\$ 4,340,000
Decrease in taxes resulting from		
Inventory allowance	390,000	1,359,000
Lower effective income tax rates on capital gains	102,000	415,000
Other	(270,000)	(295,000)
	222,000	1,479,000
Provision for income taxes	\$ 2,224,000	\$ 2,861,000

(b) Losses carried forward

At November 30, 1986 the company has the following available to reduce future years' income for tax purposes, the tax effect of which has not been recorded in the accounts.

Losses carried forward for tax purposes until	
1989	\$ 11,000
1990	150,000
1991	54,000
1992	291,000
1993	205,000
	711,000

Net timing differences resulting from revenue and expense items reported for tax purposes in different periods than for financial purposes	18,000
	\$ 729,000

10. Pension Plan

The company maintains a contributory defined benefit pension plan covering substantially all of its employees. The plan provides pensions based on length of service and final average earnings.

Actuarial reports indicate that as at November 30, 1986 the present value of accrued pension benefits is fully funded.

11. Earnings Per Share

The calculation of 1986 earnings per share has been made using the weighted monthly average number of common shares outstanding, 4,349,046 (3,870,511 in 1985).

Five Year Financial Summary

	1986	1985	1984	1983	1982
Sales	\$384,869,000	\$377,086,000	\$350,964,000	\$328,565,000	\$373,759,000
Depreciation	3,964,000	3,480,000	3,004,000	2,830,000	3,330,000
Interest on long-term debt	3,297,000	3,446,000	4,061,000	4,696,000	8,435,000
Net income (loss)					
Including extraordinary items	3,218,000	8,387,000	4,356,000	4,652,000	(6,812,000)
Before extraordinary items	2,573,000	5,809,000	3,801,000	3,302,000	(2,822,000)
Dividends					
Preference shareholders	—	—	18,000	76,000	107,000
Common shareholders	2,612,000	2,322,000	2,319,000	1,153,000	1,082,000*
Working capital	82,694,000	67,763,000	64,279,000	69,669,000	55,259,000
Fixed assets, net	39,041,000	37,390,000	32,964,000	31,553,000	40,645,000
Long-term debt	25,902,000	28,014,000	26,787,000	30,759,000	46,103,000
Shareholders' equity	97,651,000	78,456,000	72,391,000	71,031,000	52,038,000
Total assets	218,549,000	210,350,000	185,838,000	189,072,000	202,461,000
Earnings per common share					
Including extraordinary items					
Primary	.74	2.17	1.12	1.43	(2.49)
Fully diluted	—	—	—**	1.42	(2.38)
Before extraordinary items					
Primary	.59	1.50	.98	1.00	(1.05)
Fully Diluted	—	—	—**	1.01	(.99)
Dividends paid per common share	.60	.60	.60	.30	.39
Equity per common share	20.19	20.27	18.70	18.19	17.90
Common shares outstanding	4,835,511	3,870,511	3,870,511	3,840,865	2,832,555
Number of branches	243	239	229	237	268

*1982 figure includes stock dividend of \$665,000

**preferred shares were redeemed in 1984

Capital Expenditures by Province (\$ millions)	1986	1985	1984
Quebec	\$1.5	\$.7	\$.1
Ontario	2.0	4.2	.9
Manitoba	1.9	2.9	1.3
Saskatchewan	.4	1.6	1.3
Alberta	.4	1.0	1.8
British Columbia	.5	.9	.4
Total	\$6.7	\$11.3	\$5.8

Return on Common (\$ millions)	Equity	Income (loss)	% Return	
1982	\$50.7	\$(6.8)	(13.4%)	*During 1983 the company issued \$16,000,000 of Common Treasury Shares.
1983*	69.9	4.7	6.7%	**During 1986 the company issued \$18,818,000 of Common Treasury Shares.
1984	72.4	4.4	6.1%	
1985	78.5	8.4	10.7%	
1986**	97.7	3.2	3.3%	

1986 Summary by Quarter (\$ millions)	Sales			Net Income			Earnings per share (dollars)		
	1986	1985	1984	1986	1985	1984	1986	1985	1984
First Quarter	\$ 80.2	\$ 76.3	\$ 70.2	\$.4	\$.3	\$.3	\$.11	\$.08	\$.06
Second Quarter	102.3	97.2	92.2	1.7	1.9	1.8	.44	.50	.47
Third Quarter	98.6	99.3	87.9	.4	2.3	1.3	.04	.59	.33
Fourth Quarter	103.8	104.3	100.7	.7	3.9	1.0	.15	1.00	.26
	\$384.9	\$377.1	\$351.0	\$3.2	\$8.4	\$4.4	\$0.74	\$2.17	\$1.12

Capitalization at Year End	(\$ millions)			(percentage)		
	1986	1985	1984	1986	1985	1984
Common Equity	\$97.7	\$78.5	\$72.4	79.0%	73.7%	73.0%
Long-Term Debt	25.9	28.0	26.8	21.0%	26.3%	27.0%
	\$123.6	\$106.5	\$99.2	100.0%	100.0%	100.0%

Working Capital Bank advances were \$43.4 million at year end, compared with \$48.8 million in 1985. Working capital at year end totalled \$82.7 million, up \$14.9 million from \$67.8 in the prior year.

Ratio Analysis

	1986	1985	1984
Working Capital	1.91:1	1.68:1	1.77:1
Debt/Equity	.73:1	1.01:1	.94:1
Asset Turnover	1.76:1	1.79:1	1.89:1
Return on Assets	1.5%	4.0%	2.3%
Inventory Turnover			
– including inter-company	3.8X	4.0X	3.9X
– excluding inter-company	2.5X	2.6X	2.6X
Accounts Receivable Turnover (trade only)	7.3X	7.2X	7.0X
Personnel Productivity (wages to gross profit)	51.4%	49.5%	51.4%
Sales per employee (average)	\$153,702	\$153,162	\$146,235
Number of employees – end of year	2,540	2,474	2,432

Growth of Total Assets	1982	\$202.5	– 15.6%
(\$ millions)	1983	189.1	– 6.6%
	1984	185.8	– 1.7%
	1985	210.4	+ 13.2%
	1986	218.5	+ 3.8%

Management's Reporting Responsibility

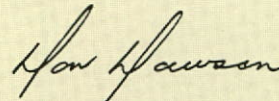
The accompanying consolidated financial statements of Acklands Limited and its subsidiaries, and all information in this annual report, are the responsibility of management and have been approved by the Board of Directors.

The financial statements have been prepared by management in conformity with Canadian generally accepted accounting principles. The financial statements include some amounts that are based on best estimates and judgments. Financial information used elsewhere in the annual report is consistent with that in the financial statements.

Management of the corporation and its subsidiaries, in furtherance of the integrity and objectivity of data in the financial statements, has developed and maintains a system of internal accounting controls and supports an extensive program of internal audits. Management believes that this system of internal accounting controls provides reasonable assurance that financial records are reliable and form a proper basis for preparation of financial statements and that assets are properly accounted for and safeguarded. The internal accounting control process includes management's communication to employees of policies which govern ethical business conduct.

The Board of Directors carries out its responsibility for the financial statements in this annual report principally through its audit committee, consisting of a majority of outside directors. The audit committee reviews the corporation's annual consolidated financial statements and recommends their approval to the Board of Directors. The shareholders' auditors have full access to the audit committee, with and without management being present.

These financial statements have been examined by the shareholders' auditors, Thorne Ernst & Whinney, Chartered Accountants, and their report is presented herein.



Donald J. Dawson
President



Paul Burns
Executive Vice-President

Acklands Limited

Board of Directors

David Blank

Chairman
Acklands, Toronto

Paul Burns

Executive Vice-President
Acklands, Toronto

Philip F. Connell, F.C.A.

Senior Vice-President Finance
The Oshawa Group Limited
Toronto

Thomas Cook

Retired Automotive Executive
Naples, Florida

Donald J. Dawson

President
Acklands, Toronto

Grant W. MacLaren

President
Sylvan Ventures Ltd.
Vancouver, British Columbia

Walter Stracey

Chairman
Indal Limited, Toronto

Corporate Data

Auditors

Thorne Ernst & Whinney
Winnipeg

Transfer Agents and Registrars

Common Shares
Canada Trust
Vancouver, Winnipeg, Toronto
and Montreal

Counsel

Fillmore & Riley, Winnipeg

Share Listings

Toronto and Winnipeg
Stock Exchanges

Ticker Symbol: ACK

Head Office

125 Higgins Avenue
Winnipeg, Manitoba R3B 0B6
Telephone: (204) 956-0880

Executive Office

945 Wilson Avenue
Downsview, Ontario M3K 1E8
Telephone: (416) 635-1200

Major Divisions

Acklands Automotive
Acklands House of Tools
Bumper To Bumper
Canadian Performance
Distributors

Maurice Rousseau & Cie
Pro Fast'ners
Regent Automotive
Taylor, Pearson & Carson
T.P.C. Turfcare

Westair Sales Company
Western Automotive Rebuilders
Western Warehouse Distributors
Westward Distributors
Westward Power

Audit Committee

Paul Burns

Philip F. Connell, *Chairman*

Grant W. MacLaren

Compensation Committee

Thomas Cook, *Chairman*

Donald J. Dawson

Walter Stracey

Directory

Victor A. Aker

Vice-President

Murray Biback

General Manager
Regent Automotive

Glen Black

General Manager
Manitoba & N.W. Ontario

Murray Blanch

General Manager
Saskatchewan

David Blank

Chairman

Paul Burns

Executive Vice-President

M.A. Carroll

Manager, Advertising
and Promotion

Gail Cooley

General Manager
Bumper To Bumper

Douglas G. Cumming

Group Vice-President
Alberta and British Columbia

David Cummings

Director, Management
Information Services

Bob Cushnaghan

General Manager
Body Shop Supply

Donald J. Dawson

President

Matt Dickson

Manager, Planning and
Development

Walter Fedorak

General Manager
Alberta

Blake E. Forrest

Vice-President
International Division

Arnold Glass

Group Vice-President

Arnold Harbour

Director of Corporate
Industrial Purchasing

Bob Haynes

General Credit Manager

Harry Hennick

General Manager
Regent Automotive

Eugene Hretzay

Corporate Counsel
Assistant Secretary

Ross Hurst

General Manager
British Columbia

Bob Jones

General Manager
Westward Distributors

Ron Katz

General Manager
Canadian Performance
Distributors

Leonard J. Kenna

Vice-President, Special Projects

Alex Kozma

Vice-President, Internal Audit

Len Lavoie

Personnel Manager

Pierre Maranda

General Manager
Quebec

Gerald W. McCallum

Director of Finance
Secretary-Treasurer

Kiyo Nonomura

Director of Corporate
Automotive Purchasing

Ronald Rezetko

General Sales Manager

Dale Scruby

General Manager
Western Automotive Rebuilders

Samuel N. Smilski

Comptroller

Theodore Stokes

Group Vice-President
Saskatchewan, Manitoba
and N.W. Ontario

Sam Torkia

Regional General Manager
Ontario and Quebec

